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Chile

Retail Food Sector

Annual

2005

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Report Highlights: In Chile there are no food warehouse outlets or wholesale clubs. Most of the products sold through US-style mass merchandisers are sold in the larger supermarkets and hypermarkets in Chile.

Exporters of specialty food items with lower volumes usually go through importers, while the large supermarket groups (D&S and Cencosud) have the infrastructure to import directly, but generally only do so in limited quantities.

The supermarket industry is constantly looking for new products to satisfy upscale consumer demand. According to interviews with supermarkets and suppliers, among the best prospects are snack foods, including high energy nutritional snacks for sports, frozen prepared dinner entrees and frozen bread products, dairy products, fresh and frozen, such as yogurt and specialty drinks, processed meats, dietetic snacks and candies, baked goods and mixes, sweets, gums and chocolates, and specialty pet foods (other than dry dog food).

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Santiago [CI1]
[CI]

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Section I. Market Summary

- The retail food market (supermarkets, department stores and others) accounted for 13 percent of Chile's GDP in 2004 with sales of almost $12 billion, according to a recent report by AC Nielsen. Chile's supermarket industry reported sales of $5.1 billion in 2004. The sales forecast for 2005 is $6.8 (7.5% sales growth).
- Chile has a modern, highly competitive supermarket sector. The number of retail food stores grows approximately one percent per year. Supermarkets, i.e., stores with 3 or more check-outs, serve about 58% of the grocery market and number about 688. Traditional neighborhood mini-markets, beverage stores, vegetable stands, etc. serve about 23% of the market and number about 90,000. Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. In general, they do not import, but purchase from local wholesalers/distributors. The average gas mart has an area of 100-150 m2 and sells around $600,000 annually. Gas mart profit margins are reportedly about 10% on sales, about double that of supermarkets.
- Growth in retail food sales from 2003 to 2004 was significant:
    - 6.9 percent in pesos
    - 7.3 percent in volume
- Although sales increased during this time, average prices decreased less than one percent.
- The Free Trade Agreement (FTA) between the United States and Chile has prompted significant growth in trade: US consumer-oriented food product exports to Chile grew by 54 percent in 2004, the first year of the FTA's implementation. The U.S.-Chile FTA has opened new opportunities for previously prohibited U.S. products, such as red meat, certain fresh fruits, and dairy products.
- Sales trends are favoring self-service store formats as the Chilean consumer is increasingly opting for convenience over price; hypermarkets and convenience stores are gaining popularity. Hypermarkets account for 30% of total sales, offering customers fresh bakery goods, delicatessen items, fresh seafood, coffee bars, prepared salads, pizzas and meat dishes, in addition to fresh, frozen and dry grocery products. Warehouse outlets and wholesale clubs have not yet made an appearance. About 10-15% of products sold in supermarkets is imported, but this segment has grown by 85% over the last five years.
- Sales channels continue to blur, as many stores are opting to expand their product offerings to include non-traditional items (e.g., "one stop shopping"). Recent mergers and acquisitions have seen supermarkets begin to offer clothing and bicycles, while department stores are dabbling in the high-end imported food business.
- Discounts and sales are not as effective in Chile as in other Latin American countries, while the typical consumer places more value on innovation and the location of the sales channel. Half of Chilean consumers claim that price is the most important factor when making a food purchase, although coupon use is minimal.
- The brands exhibiting the most growth focused their strategies on the marketing mix categories of Product and Price more so than Promotion or Distribution, as reported by AC Nielsen.
- The market for consumer-ready food products and imports is concentrated in Santiago, where higher incomes and the city's population density command almost half of the country's consumer demand.
- Food and beverages represent the largest Chilean household expenditure, averaging 30 percent.
- The Index of Economic Freedom gives Chile's trade policy its highest rating, as there are almost no non-tariff barriers to the market. Additionally, the dollar's weak position has helped to make U.S. exports more attractive to the Chilean market.

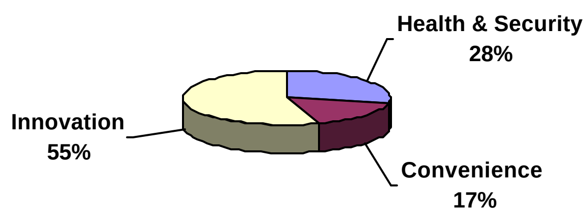
Advantages	Challenges
Second-highest GDP per capita in Latin America, after Mexico	Domestic fresh fruit and vegetable markets are abundant
GDP growth has increased at a faster rate than population growth (6 percent versus 1.2 percent over the past decade), reflecting the country's strong economy; GDP is expected to grow 5.5% in 2005	Home made products have a significant share of the market; Chileans tend to prefer fresh foods, which are perceived as higher quality
Population of 15 million is very centralized, with over 40 percent living within 100 miles of the capital's metropolitan region	Many local consumers are becoming more sophisticated, seeking out brand names they recognize as capable of supporting their needs. This kind of brand recognition often requires a significant investment in marketing.
The U.S.-Chile Free Trade Agreement has set the stage for elimination of import duties on most consumer-oriented food products from the United States. Currently approximately 95% of US products enter Chile duty free, as a result of the U.S.-Chile FTA implemented on January 1, 2004.	Chile's current uniform tariff rate is a low 6 percent for most products anyway.
Chile has one of the highest percentage of non-traditional (i.e. non "mom & pop") store sales in Latin America, which allows suppliers to target large retail chains for larger volume sales	Selling to the mom & pop store segment of the market can be challenging because it is so fragmented.
The Economist Intelligence Unit reports that foreign companies may conduct business in Chile on the same basis as local companies, while they enjoy guaranteed access to foreign exchange for repatriation of capital and profits	The typical Chilean consumer is not immediately attracted to foreign products, as local producers typically provide well-priced quality options. Only 10-15% of products sold in supermarkets are imported.
Recent studies have shown that per household total food purchases average US$330 dollars per month.	The average Chilean consumer is very price sensitive.
Workers in Santiago create a steady demand for consumer-oriented retail food products, since 70% of them eat out for lunch, often buying ready-to-eat items in supermarkets and convenience stores.	Chile enforces very strict animal and plant health quarantine regulations that in some cases create non-tariff barriers to imports of consumer-oriented retail foods. Imports also sometimes face a challenge because a customary store practice is to accept only products with a minimum of two thirds of their shelf life remaining.
The Consumer considers U.S. imports to be high quality and luxury goods. The nation's growing retail industry is beginning to foster a culture eager to try new and higher quality products.	The market for imported, consumer-oriented food products is fairly small. Only the upper and upper middle class population segments in Chile have the disposable income to purchase these products.

Technological infrastructure, domestic transportation and communication systems in Chile are efficient.	The market for imports of most consumer-oriented food products is too small to support full container shipments. Also the importers/distributors tend to be small and fragmented. The larger retail chains are only now beginning to import directly in limited quantities.

Consumer Trend.

The majority of Chilean consumers value product improvements and increased functionality, as was recently reported by AC Nielsen.

Chilean Consumers: Most Valued Benefits



Source: AC Nielsen

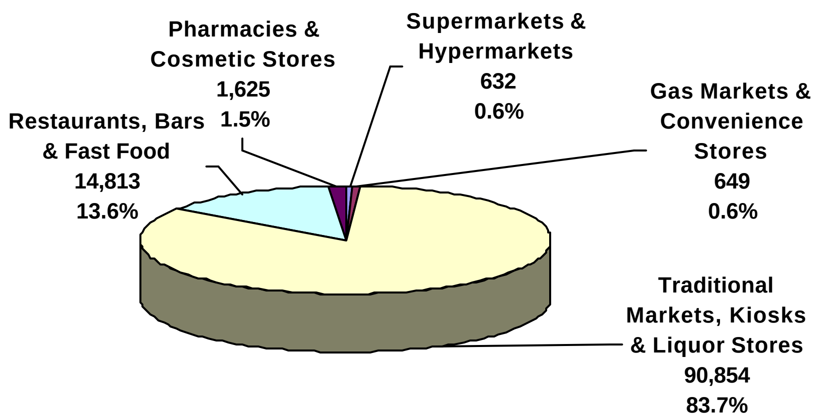
The Chilean consumer places high importance on products with additional value. Exporters should find a strong balance between price and quality to garner success in the market. Stores categorized as self-service or convenience grew more than all other food retail outlets in 2004, with 4.7 percent more locations.

Major Cities	Population
Santiago Metro	6.2 million
Concepcion-Talcahuano	966,000
Viña del Mar-Valparaiso	911,000
Antofagasta	260,000
Temuco	250,000
Source: INE 2002	

Consumer Demographics in Santiago (2002)		
Socio-Economic Class	**% of Homes in Santiago**	**% of Expenses on Groceries**
Upper & Middle Class	9.5%	13.8%
Emerging Middle Class	44.5%	49.0%
Poor	46.0%	37.2%

Section II. Road Map for Market Entry

Chilean Retail Food Industry Points of Sale: Number of Outlets (2004)



Source: AC Nielsen

A. Supermarkets and Hypermarkets

a) Market Structure

The distribution network for food products is intuitive, as it follows the typical pattern of most export markets. Vertical integration can be found in local Chilean companies, with some manufacturers selling directly to the final points of sale. Exporters of specialty food items with lower volumes usually go through importers, while the large supermarket groups (D&S and Cencosud) have the infrastructure to import directly.

The retail food market is becoming increasingly competitive, as there has been a proliferation of mergers and acquisitions among supermarkets and pharmacies. The historical, clear-cut lines of store categories are crossing, while traditionally disparate major retail chains are entering each others' market space. The modern Chilean consumer is increasingly looking for convenience, fueling the trend towards mega-stores which sell a multitude of product categories under the same roof.

Supermarkets have moved far beyond their original niches (upper-income, highly populated areas) and have spread to the middle and working-class market segments, both in the capital and in medium-sized cities and towns throughout Chile. The chains are managed professionally, and the selection of food is as varied in scope to the choice of products found in the US. All stores have incorporated cutting-edge technology such as electronic price marking devices and specialized weighing systems. Generally, hypermarkets and supermarkets maintain a relatively high standard of hygiene with cold counters for meat, fish, produce and dairy products.

ASACH predicts that overall retail sales through large-store formats (supermarkets, hypermarkets, department stores, etc.) will grow 7.5 percent in 2005.

Supermarkets per Region (March 2005)

Supermarkets are defined as having three or more cash registers in the store.

Region 1:	12	Region 8:	96
Region 2:	25	Region 9:	58
Region 3:	19	Region 10:	54
Region 4:	32	Region 11:	6
Region 5:	74	Region 12:	14
Region 6:	50	Santiago:	207
Region 7:	41		

Source: Chilean Supermarket Association (ASACH)

Hypermarkets have demonstrated consistent growth over the past five years, to the detriment of the smaller retail stores which have been acquired by the giant chains. Aggressive investments by D&S and Cencosud can be seen in store expansions and increased product portfolios, representing 38% of supermarket industry sales and growing.

There are currently 44 Chilean hypermarket format stores averaging over 10,000 square meters (107,600 square feet) of floor space and more than 25,000 products. The growing trend for Chilean consumers is their preference to shop at the larger hypermarkets, versus smaller grocery stores, due to the wide variety, product diversification and lower prices. The leading hypermarket chains have incorporated different product lines to reinforce the marketing strategy 'one-stop shop,' where customers are able to find almost everything they need in one store. In addition to traditional food items, hypermarkets carry non food items such as home appliances, electronics, hardware, sports equipment, toys, textiles and articles for the home. In general, the hypermarket stores devote 50% of the total selling space to food items (groceries 25% and perishables 25%) and the remaining 50% devoted to non food items. Most of them also have family style cafeterias and deli's. Hypermarkets and supermarkets still have underdeveloped 'health-food' sections. The extent of most supermarket health-food sections does not reach much further than such products as whole grain cookies, adult cereals (with less sugar), sugar free cookies, and in some cases diet mayonnaise.

While the industry has experienced great success with the hypermarket format, the majority of the retail food stores in the country remain in the traditional supermarket format, averaging between 3,000 and 6,000 square meters (32,280 and 64,560 square feet) of floor space and carrying 1,500 to 10,000 products. There are currently 688 supermarkets throughout Chile, of which 207 are located in the Metropolitan Region/capital city of

Santiago. The major supermarket chains are Lider Vecino and Lider Express (D&S); Jumbo (Cencosud) and Santa Isabel (formerly Dutch Ahold, currently owned by Cencosud); Unimarc (Supermercados Unimarc S.A.); and Montserrat (Supermercados Montserrat S.A.C.). The supermarket stores place an emphasis on the food products offered, which include a broad assortment of quality perishables and groceries. They are marketed as a convenient alternative to small, family-owned grocers and informal markets with a price/quality ratio that appeals to the middle and lower-middle classes. Therefore, in the face of a recovering economy, the supermarkets are well positioned to benefit from the increasing purchasing power of Chile's lower socioeconomic classes.

There are important differences between the products carried by both hypermarkets and supermarkets in the low versus mid to high socio-economic segments. The stores located in low-income areas normally carry a limited number of specialty items (usually higher-priced imported goods), apart from the items destined for massive consumption. Hypermarkets and supermarkets in the mid to high-income areas carry a varied assortment of specialty items with a relatively high degree of imported products. A rise in consumer sophistication in the mid to high socio-economic areas, in terms of products, brands and price, has resulted in increased demand for imported food products. Nevertheless, despite the increasing selection of products and advances made in the super and hypermarket sector as a whole, compared to the US, the selection of specialty imported products is still limited.

b) Entry Strategy

As mentioned above, 55 percent of Chilean consumers value innovation when determining what to purchase. U.S. products typically have a comparative advantage in this area, as many new functions and market segments (e.g., light or diet items) originate in North America. Breakfast cereals were among the top ten brand groups in 2004 with a growth of 19.2 percent, and the vast majority of these were imported. This category is still small and targeted mainly at children and health-conscious adults.

An interesting example of successful export branding can be seen with the Canadian President's Choice brand directly imported by Líder supermarkets (D&S). This collection of items ranges from brownie mix to dishwashing detergent, and the products are clustered together on an island display in many stores. The items command premium prices, and the typical Chilean consumer perceives them to be somewhat exclusive and of high quality.

To achieve success in the Chilean market, a supplier must offer world-class products, aimed at satisfying the needs of a small, price conscious consumer base. Chilean importers of retail foods focus on acquiring low cost goods that offer a high profit/price ratio, from serious manufacturers who compete globally, or are capable of doing so.

Many foreign companies have found that Chile, with its small population, relatively low per capita income, and borders so open to foreign trade, has many challenges. Others see success here as a stepping stone toward achieving growth and market share in the rest of Latin America.

Because supermarkets and hypermarkets are such an overwhelmingly major force in the Chilean retail food sector they present the best opportunity for U.S. retail food exports. They are a means for exposing the consumer market to imported goods in all socio-economic segments, in both the large cites and urban areas. If the current consolidation trend continues one can expect that in the near future three to four chains will command up to 60% or more of all retail food sales in Chile. The local market niches are slowly disappearing under the pressure of this wave, and the distinction between imported retail foods and traditional, domestic foods is following suit.

For U.S. companies wanting to sell consumer-oriented retail food products to the large supermarket chains they should contact them directly to identify the distribution channel the dealer prefers (i.e. direct import, from a commissioned agent, or a local importer/distributor). (See Distribution Channels below) Personal relationships and a high level of communication are key, as Chilean business people are accustomed to -- and frustrated by -- foreigners who arrive on a whirlwind tour and promise things they then do not deliver. Generally speaking, higher priced, specialty retail foods are imported through a third party. It is more likely that supermarkets would have a greater interest in directly importing retail foods with a broader appeal and higher volume.

For suppliers, supermarkets and hypermarkets are a challenging client, often times requesting payment for shelf space and extensive merchandising support. The supermarkets' procurement practices - quality and safety standards, packing and packaging requirements, costs, volumes, level of consistency, and payment practices - have all made a significant impact on the retail food import sector.

Pricing Products

A 6% tariff is levied on the CIF value of all imported food products. This tariff and a value-added tax of 19% (since October 1, 2003) are paid by the importer and not by the supplier. Imports from countries with which Chile has bilateral trade agreements are covered by different, preferential tariff schedules. Despite the fact that imports from Argentina and Brazil are cheaper because of the exchange rate advantage, the final price for mass-distributed U.S. retail food products should be competitive with imports from these countries, now that the FTA has gone into effect (January, 2004). Gross margins for consumer-oriented retail food products are generally 30-50 percent or more for direct sales to consumers, or 20-30 percent each for the importer/distributor and the retailer when a third-party distribution chain is in place. As most of these products are higher-priced items they must identify niche market segments to prosper.

Private Labels

Hypermarkets, supermarkets and pharmacies are increasingly focused on private label brands. In total private label brands (both grocery and non-grocery) are currently estimated to represent 5% of supermarket sales (US$ 200 million). The development of private label brands has been a success in the supermarkets and this segment of the market is expected to grow to represent an estimated 10-15% of supermarket sales by 2005. Supermarkets D&S were among the first to focus significant resources on private labels in the late 1990's and the other chains are following. In several cases third party companies will manufacture under the chain's own label while in other cases, the chain will vertically integrate to incorporate its own manufacturing arm. The recent price wars among food retailers has strengthened the impact of private label brands on the market. Examples of private label goods include tea, spices, rice, frozen vegetables, canned foods, pasta, cookies, sauces and crackers.

c) Company Profiles.

Distribución y Servicio (D&S) is Chile's largest supermarket chain, garnering 34 percent of the market. The company operates approximately 40 hypermarkets, 25 supermarkets, and more than 40 pharmacies (located together with the hyper/supermarkets). In 2003 D&S rebranded its Almac and Ekono stores under its flagship Líder banner, and in 2004 it bought seven hypermarkets from French retail giant Carrefour, which was the latest foreign retailer to become a casualty in the aggressive Chilean retail environment. Its "every day low prices" strategy was launched in the second half of 2003, sparking a price war amongst its competitors. Recognizing that it must operate on thinner margins, D&S is stocking its shelves with more private label brands in order to maintain its low price strategy.

Chilean retailer *Cencosud* is the second player in the market with 13 hypermarkets (Jumbo) and 107 supermarkets (Santa Isabel, Las Brisas and Montecarlo). Cencosud has also established a significant presence in Argentina (13 hypermarkets and 235 supermarkets).

Supermercados Unimarc is struggling to maintain its position in the Chilean market as the fourth largest food retailer in sales. It targets middle- to high-income consumers operating under three formats. The Express stores are small and offer approximately 3,000 items; its traditional supermarkets offer 20,000 items and emphasize fresh foods and prepared meals; its hypermarkets offer 30,000 items, but only half are food or beverages while the rest are housewares and clothing. Unimarc's strategy is to offer customers the lowest price in the market with personalized attention.

San Francisco was recently acquired by the Chilean retail powerhouse Falabella. This supermarket subsidiary has maintained its market share despite the competition from hypermarkets, but it hovers around 3%, similar to the Montserrat and Rendic chains. Falabella department stores also offer an increasing quantity of high-end gourmet food (fashioned loosely after the Harrod's concept in the UK); these boutique lines are almost completely imported and sold at a premium.

Fierce competition among these top supermarkets sparked the Chilean anti-monopoly regulator to accuse them of unfair competitive practices, including selling products at below cost. D&S and Cencosud control almost 60 percent of Chile's supermarket sales, but these sales are mainly in urban areas; family-owned regional supermarkets tend to cater to rural customers. These smaller stores operate with less floor space and offer a limited range of products, but they have formed alliances among each other to generate economies of scale. An example is Cadesur, an alliance of nine family-owned companies in the central south regions, which collectively imports products from Asia to compete with the offerings of the supermarket giants.

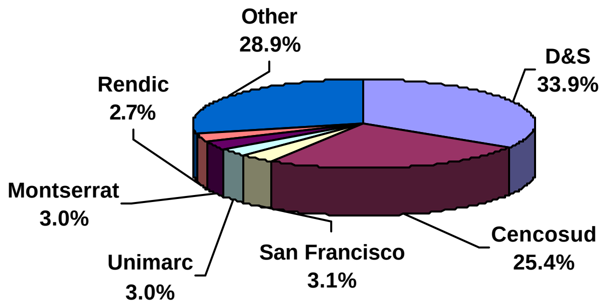
The Supermarket Activity Index (IACSUP) reports that real sales in the supermarket industry throughout Chile grew 7.7 percent in 2004:

- 7.3% in the Santiago Metropolitan Region
- 7.9% in the rest of the country

Retailer & Type	Ownership	2004 Sales (in U.S.$)	Number of Outlets	Location	Purchasing Agent Type
Cencosud:	Local			Nationwide	Direct, Third-Party Distributor, Agent
Jumbo		$721.7 million*	11		
Las Brisas		$92.4 million*	17	Nationwide, but not Santiago	
Montecarlo		$32.3 million*	15	Santiago	
Santa Isabel		$578.3 million*	74	Nationwide	
D&S: Lider stores		$2.24 billion	110		
Unimarc		Unavailable	42	Primarily Santiago	

*These figures were calculated using the December 31st, 2004 exchange rate of CH$556.70 pesos = USD$1.00

Supermarket Market Share (August 2004)



Source: AC Nielsen

d) Distribution Channels

Currently, over 3,000 importers operate in Chile in the consumer-oriented food sector; some of them also act as export agents. Most are small-to-medium size firms. Several large firms handle different lines of products and are large wholesalers. Almost all the firms have their main offices in Santiago. The larger ones have branch offices throughout the country, including in the free-trade zones. Other firms employ specialized traveling salespeople.

The traditional method of entering the large chains through third-party distributors or commissioned agents is still recommended in most cases. The advantages of third-party distributors and commissioned agents are many. Most have established relationships with product buyers throughout the industry, from supermarket chains to local distributors to restaurants and hotels. Third-party distributors will assist U.S. exporters with all aspects of importation, distribution, sales and marketing of their products. This includes receiving, transportation, storage, distributing, pricing, packaging and labeling, and advertising (often times subcontracted to an advertising agency). Commissioned agents will assist with the importation and distribution logistics, but will not be as “hands on” as a third-party distributor will be. Depending on the product, the standard mark-up on imported consumer-oriented food products is 30-50%. The mark-up covers some of the costs incurred in the process and includes the 5-10% earned by the distributor or agent. Labeling, advertising and other unforeseen cost are not usually included in the mark-up. In addition, suppliers are providing more and more “promotoras” or specialized sales people to stand in the aisle to hand out samples and promote the product.

Third-party distributors emphasize the need for exporters to be financially committed to their products and the market they are entering. It has been said by many within the industry that U.S. companies like to sell but do not like to export. The financial resources dedicated to an exported product are often the difference between success and failure.

Chilean supermarket industry e-marketplace has become very popular in the industry because it allows distribution centers to better manage the arrival of merchandise. The online dispatch notification service integrates supermarket suppliers in a community where they can exchange all the documentation involved in procurement - purchase orders, dispatch orders, receipt orders, payments, catalogues, and sales reports - for greater efficiency and transparency. In 2002, the e-marketplace saw a greater use of the service by supermarkets, a larger number of suppliers becoming affiliated with the site, and an increase in the use of electronic documents in the industry. It has about 910 suppliers and is currently working with 12 supermarket chains that represent 63% of the industry. The company calculates they are moving US$ 2.8 billion a year in the form of purchases from their suppliers. The supermarket chains participating in the e-marketplace are: D&S, Jumbo, Santa Isabel, Montecarlo, Economax, Montserrat, Rabie, Bryc de Curico, Alvi, Rendic, Carrefour and Unimarc.

B. Convenience Stores, Gas Marts, Kiosks

The convenience stores, gas marts and pharmacy chains have been steadily expanding their presence in the upper and middle class neighborhoods of Santiago. They are, on average, around 1,000 square meters (10,760 square feet) in floor space and offer between 400 to 1,500 products. Impulse buys make up a high percentage of these stores' sales. Their marketing strategy is to project the store's image as a high quality, personable and convenient outlet.

a) Entry Strategy

Independent distributors are best suited to ensure that imported products are available in the market. Most of these stores sell limited quantities of imported candies and snacks, with little presence of U.S. products. In general, they purchase from local distributors.

The number of convenience stores and gas marts has grown consistently over the past decade, but their market share of food sales has slowly deteriorated.

b) Company Profiles

Convenience Stores

These small stores in high-traffic residential zones and commercial zones have emerged as an alternative to the supermarkets, carrying smaller quantities of a selected variety of items. The target market is clientele with little time and looking for "necessary" purchases. They carry a small quantity of select items, targeting a consumer with little time in need of specific products. Food products sold at the convenience stores include snacks, candy, and alcoholic and non-alcoholic beverages, as well as ready to eat prepared food, and some necessity items such as bread, milk and fruit. Chains such as Big John, Castaño, Lo Saldes, Fuchs and OK Market are the most prevalent in the capital city of Santiago. This format grew by 4.7% in 2004.

Gas Marts

Gas marts have been present in Chile since the mid-1990s, when some of the larger multinational chains introduced them to the market. In Chile there are 1,506 gas stations with four chains being the major distributors: Esso, Copec, Shell, and Repsol YPF. In 2002, there were over 260 gas stations with gas marts, or around 18%. Prices are usually higher at these stores, but hours are extended to serve late-night clientele. The product mix of consumer-oriented food items at these gas marts consists mostly of a varied assortment of snacks, drinks, alcohol, confectionaries and pre-made foods. Many of these chains have incorporated deli's and restaurants in their formats; hooking-up with fast food chains such as McDonalds to provide clientele with food alternatives. The gas marts and food offerings often generate as much or more income as the sale of fuel with profit margins between 8-10 percent. The average gas mart garners over US$60,000 in food sales annually.

Retailer	Ownership	Number of Outlets
Pronto	Copec	80
Select Mart	Shell	74
On the Run & Tiger Mart	Esso	105
AM/PM	Repsol YPF	N/A

Pharmacies

Chilean pharmacy chains have undergone significant growth and consolidation in the last seven years, resulting in Farmacias Ahumada, Salco Brand, and Cruz Verde as the three most dominant, controlling 90% of the market. At the end of 2002 there were a total of 1,608 pharmacies in Chile, with the three leading chains combining to open 170 new outlets. This rapid expansion has quickly brought the sector to maturity and created a price war between the chains. These chains are not big importers but rather source the majority of their products through their own drug companies (which focus on the production of both branded and generic drugs) and purchase name-brand toiletries, cosmetics, and foods through an importer or the local representatives of the international brands (e.g., Johnson & Johnson, Clairol, etc.).

Drugstores have expanded by widening their product range to include the most common groceries as well as healthcare, cosmetic and personal hygiene products. In effect, these stores are becoming more like convenience stores, competing with supermarkets and kiosks.

Pharmacies have increased their share of the retail food market, and Chilemarket reports that "same store sales" are growing one percent annually, while new locations are opening successfully as well. The self-service format has proved popular in the Chilean market, as can be seen in the chart below. Convenience and unassisted purchase formats have been the factors fueling the growth in this segment.

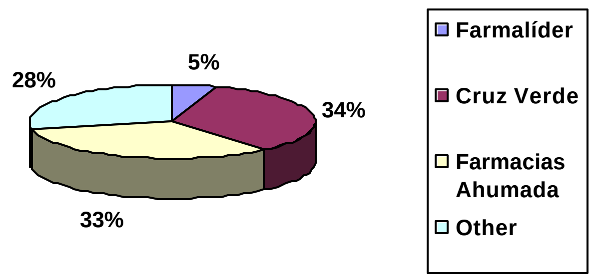
Chilean pharmacies are diversifying their product offerings, and many are attempting to compete directly with supermarkets. Cruz Verde, for example, is trying to build its own brand through high margin products after acquiring Conosur.

Chilemarket reports that almost 30 percent of overall pharmacy sales are not pharmaceutical in nature, and this trend should continue in the future. The three largest chains have migrated toward a drugstore format, locating convenience-store shelves throughout the store and the pharmacy counter at the back.

Retailer & Type	Ownership	Sales U.S.$ (2004)	Number of Outlets	Location	Purchasing Agent Type
Cruz Verde	Local	U.S.$448 million	250	National	Primarily-third party distributors and vertically integrated local manufacturers
Farmacias Ahumada		U.S.$435 million in Chile; US$1 billion in total	229		
Salcobrand		U.S.$325 million	240		
Farmalíder (D&S)		U.S.$66 million	More than 40		

Source: company information and estimates based on market share numbers

Pharmacy Market Share (2004)



Source: Companie's information

C. Traditional Markets, Small Independent Stores, Kiosks and Liquor Stores

In terms of presence, traditional markets, small independent stores, kiosks and liquor stores ("botellerias") constitute a large share of the retail food sector, but only a nominal share in terms of sales volume, and they import minimal food products. According to AC Nielsen, in Chile there are 87,485 stores that fall under the category of traditional markets, kiosks and liquor stores, representing 83% of the total points of sale for consumer foods in Chile but only 20% of total sales. Most of these stores carry a smorgasbord of goods, but very little stock with minimal imports.

In the past decade Santiago has seen the birth of specialty wine stores that specialize in mostly Chilean wines, but do offer a varied selection of imported wines from around the world. The Wine House (first of this kind, 1993), El Mundo del Vino, Vinoteca and Vinópolis are the principal chains.

a) Entry Strategy

The traditional markets and small independent stores have been affected most by the burgeoning hyper and supermarket industry. Many of the traditional markets and independent stores have joined associations in order to negotiate lower prices from suppliers. As a means of survival, many of the small stores have moved away from selling groceries, fruits and vegetables and concentrate on niche-markets such as prepared lunches, snacks and alcohol. Local distributors supply these venues.

Section III. Competition

Because price is often the determining purchase factor for most Chileans, this can present a problem for U.S. exports as the domestic market is very capable of producing many products and offering them at a low cost to the consumer. However, under a U.S.-Chile Free Trade Agreement scenario many U.S. exports will be better able to compete with products from other countries.

Free Trade Agreement & Free Trade Zones

Chile ratified a Free Trade Agreement (FTA) with the United States which came into effect on January 1st, 2004:

- The FTA immediately eliminated tariffs on almost 90 percent of U.S. products imported into Chile and more than 95 percent of Chilean exports to the United States. Tariffs on all products will be eliminated within 12 years.
- Bilateral trade in all goods grew by 33 percent in 2004, reaching almost $8 billion, while U.S. exports of consumer-oriented food products to Chile grew by 54 percent.
- Elimination of Chile's 6 percent general tariff has made U.S. products significantly more competitive, as they had been losing ground to other countries with which Chile already had preferential trade agreements (mainly Argentina, Brazil, Canada, and Mexico).

The agricultural sector should benefit from the FTA:

- Approximately 75 percent of both U.S. and Chilean farm goods will be tariff-free by 2008 and all tariffs and quotas will be phased out by 2006.
- U.S. access to this market is now competitive with Canada and the European Union, which already had FTAs with Chile.
- By 2008, farmers will gain duty-free access for these important U.S. products to the Chilean market:
    - Pork & pork products
    - Beef & beef products
    - Soybeans & soybean meal
    - Durum wheat
    - Feed grains
    - Potatoes
    - Processed food (e.g., french fries, pasta, distilled spirits & breakfast cereals)

Although the FTA allows immediate duty-free entry into Chile for the majority of U.S. goods, Chile's two free trade zones still offer some advantages: (Region I) Free Zone of Iquique in the north and (Region XII) Free Zone of Punta Arenas. Modern facilities for packaging, manufacturing, and exporting exist in each zone, and the latter has a free port. Imports entering and remaining in the Free Zones only pay value-added tax (VAT) when the products enter Chilean commerce. However, the extreme locations of each zone (north and south) diminish their effectiveness as a source of distribution to the capital. The following are some of the primary import categories for Chilean consumer-oriented foods:

Product Category	Import Supply Sources	Strengths of Key Supply Countries	Advantages & Disadvantages of Local Suppliers
Beverages & Spirits	1. Argentina: 28.4% 2. England: 24.7% 3. Brazil: 9.3% 4. Ireland: 6.6% 5. Mexico: 4.8% 6. Venezuela: 4.1% 7. USA: 3.5%	Whiskies from England and Ireland boast brand name recognition and are traditionally perceived as high quality	Chilean wine competes on the world market with a good price/quality ratio; major international beverages have established bottling facilities in Chile

Product Category	Import Supply Sources	Strengths of Key Supply Countries	Advantages & Disadvantages of Local Suppliers
Confectionary	1. Argentina: 38.7% 2. Brazil: 11.7% 3. Colombia: 9.3% 4. Ecuador: 6.9% 5. Thailand: 5.8% 6. USA: 3.4% 7. Bolivia: 2.5%	Nestlé's presence is so omniscient it is almost viewed as a Chilean product; neighboring supply countries share Chile's sweet tooth (generally sweeter than in the United States)	Many Chileans value fresh ingredients and artisanal products baked locally
Dairy	1. Argentina: 44.9% 2. Uruguay: 14.5% 3. Brazil: 9.4% 4. USA: 9.4% 5. New Zealand: 5% 6. Australia: 3.5%	Argentina is very price-competitive with its weak currency and geographical proximity; opportunities for licensing agreements (e.g., Yoplait with local producer, Quillayes)	After the FTA, dairy products are the category most exported from Chile to the United States, but American cheese and ice cream exports to Chile have increased 120% and 200% respectively, though still have very small market shares; the local industry is dominant
Fish & Seafood	1. Ecuador: 20.8% 2. Spain: 19.8% 3. Uruguay: 13.8% 4. Argentina: 13.8% 5. Morroco: 6.8% 6. South Korea: 6.6% 7. Peru: 5.6%	Ecuador is recognized as a premium supplier in certain seafood categories	Chile is one of the largest fish exporters in the world (1st for trout, 2nd for salmon), and its local supply is abundant
Fruits & Nuts	1. Ecuador: 69.5% 2. USA: 14.4% 3. Mexico: 3.2% 4. Argentina: 2.5%	Opportunities for foreign suppliers in Chile's off-season	Local fruit and nut production is strong, but as much of the country experiences all four seasons there is insufficient supply in the winter months
Grain Mill Products & Dry Goods	1. Argentina: 64.8% 2. Canada: 9.0% 3. Thailand: 5.4% 4. Brazil: 4.8% 5. USA: 4.2%	Argentina has an established production base and is extremely competitive in terms of proximity and price	Low local production; imports are necessary to meet demand
Pet Food	1. Argentina: 80% 2. USA: 8.2%	Argentina is competitive with high product quality and packaging	Demand in niche markets like super premium brands and special diet supplements is not currently satisfied

Product Category	Import Supply Sources	Strengths of Key Supply Countries	Advantages & Disadvantages of Local Suppliers
Prepared Foods	1. Ecuador: 31.7% 2. Argentina: 15.5% 3. Colombia: 9.4% 4. Thailand: 9.0% 5. Brazil: 4.3% 6. Spain: 4.2% 7. Uruguay: 4.2% 8. USA: 3.6%	Opportunities to introduce new innovations in this category	Local suppliers reacting well to increased demand in frozen and other prepared food categories
Red Meat & Poultry	1. Brazil: 76.4% 2. Argentina: 14.3% 3. Uruguay: 4.4% 4. Paraguay: 3.5%	Transportation costs for Brazilian and Argentine shipments are relatively low, and Chilean consumers are accustomed to meat from these countries	Challenging for US grain-fed beef to compete against local and neighboring grass fed beef, which is much more accepted by local consumers
Sauces & Condiments (including coffee & tea)	1. Brazil: 23.0% 2. Argentina: 22.9% 3. Sri Lanka: 16.6% 4. USA: 4.6% 5. Peru: 4.4% 6. Colombia: 3.3% 7. Mexico: 2.9% 8. Vietnam: 2.8%	Opportunities for establishing and growing branded products	Chilean tastes are fairly restrictive and are well-catered to by local brands
Vegetables	1. Canada: 53.1% 2. China: 17.3% 3. Argentina: 8.1% 4. USA: 4.5% 5. Peru: 3.6%	Opportunities for foreign suppliers in Chile's off-season	Local supply is strong, with significant distribution through informal channels (street markets, etc.)

A. Sectors.

a) Alcoholic Beverages

Although the FTA eliminated the majority of tariffs on U.S. exports to Chile, certain luxury goods incur additional taxes:

- Beer, cider, wine, champagne: 15%
- Grape pisco, whisky, aguardiente, liquorice wines: 27%

b) Health Foods, Grain Mill Products & Dry Goods

Processed "healthy" foods continue to gain popularity with the Chilean consumer. Light and diet products are increasingly visible, and 2004 saw the introduction of healthier oils and a stronger positioning of products like cereal and granola bars. A rising obesity rate has caught the attention of the government and media, and Chilean consumers are progressively more concerned about what they eat.

c) Red Meat

The FTA includes an agreement on red meat grading standards, which now allows U.S. products to be sold in the Chilean market according to U.S. standards. Chile's annual beef imports from all sources totaled US$48 million in the first two months of 2005, which was more than a 37 percent increase over the same period the previous year. According to analysts, this is a significant increase and could result in a total of 140,000 tons of imported beef in 2005, satisfying 60 percent of national consumption. However, the dominant suppliers continue to be Brazil and Argentina. In July 2004, the government of Chile opened the market for U.S. boneless beef, creating new opportunities for this product.

In 2004, Santa Isabel began to import beef directly for all of the Cencosud supermarket chains, buying 22.3 percent of total beef imports in January and February. D&S represents the second largest importer at 15 percent of the total, followed by Quinto Cuarto with a nine percent share. The latter's beef imports grew 66 percent in the period due to its expanding distribution to small and regional supermarkets.

Approximately 99 percent of Chilean homes consume cured meats, but consumption has stagnated and there is not much room for growth. The following products dominate meat sales, followed by their respective percentage share of the category:

- Viennese: 29.8%
- ham: 19.4%
- bologna: 14.5%

d) Snack Foods & Confectionary Goods

The snack and candy market has experienced significant sales growth in recent years. AC Nielsen reports that this segment grew 8.3 percent in 2004, while it had the highest growth rate of all food categories. Euromonitor notes that an increasing tendency for Chileans to eat snacks outside of meals has fueled growth in snack bar sales, which should lead the packaged food market in both volume and value growth in 2005. Factors influencing this trend include an increased availability of the product in outlets such as kiosks and convenience stores, as well as consumers' healthy perception of snack bars.

e) Dairy Industry

The Chilean dairy industry is controlled by two major international companies, Soprole (New Zealand) and Nestle (Switzerland), controlling 24% and 21% of the dairy market, respectively. Other major dairy producers are Colun 16.7%; Loncoleche 14.4%; and Parmalat 6.7%. The industry includes the production of milk (condensed, pasteurized and evaporated), cheese, yogurt, margarine and butter. Many of the larger dairy companies, specifically Nestle, manufacture a wide range of dessert lines such as ice cream and manjar (a caramel-like sweet).

Due to the preponderance of local manufactures, domestic prices for dairy goods have been depressed and imports low. Currently all U.S. dairy products face a 6% tariff and are at a disadvantage to those products from Argentina and Uruguay due to lower transportation costs and existing trade agreements with Chile. With the U.S.-Chile Free Trade Agreement the current 6% tariff on U.S. dairy products will be eliminated in 4-8 years depending on the product. Chile will phase-out its tariffs over four years on cheese, butter and butterfat, whey products, and yogurts, and over eight years on liquid milk and cream, and condensed and evaporated milk, which include both whole milk powder and nonfat dry milk. Chile now recognizes the authority of the Food and Drug Administration (FDA) to approve plants eligible to export to Chile.

The major dairy products Chile currently imports are nonfat dry milk, whole milk powder, cheese, and whey powder. Argentina and Uruguay generally supply half to two-thirds of Chile's dairy product imports. In 2004, Chile's imports of these products from all countries totaled just over 39,873 metric tons valued at US$43 million. A major supplier of cheese and whey, the U.S. share of Chile's total dairy product import market averaged just under 5% from 1999-2001. To date U.S. dairy products have been restricted due to differences in inspection regulations and grading standards. However, these issues recently have been resolved and market opportunities should increase.

f) Prepared Meals, Canned and Frozen Foods

Sociodemographic changes involving an increase in the number of working women, new active lifestyles, and a growing segment of young professionals have been the catalyst behind an increasing trend towards consumption of ready made or prepared foods. The market for pre-prepared food is growing at an exceptional pace as an estimated 70% of all workers in Santiago eat out at least once a day, mostly at lunchtime. Many of the convenience stores and minimarkets, as well as the supermarkets and hypermarkets, now offer ready-to-serve meals (precooked) for their customers.

There are an estimated 10 local manufacturers of prepared foods in Chile. Many of the locally owned chicken, beef, pork and seafood processing companies manufacture prepared foods. These items include sandwiches, frozen pizzas, Chilean-style frozen casseroles, meat and chicken dishes, and Italian dishes. Additionally, most of the supermarkets and hypermarkets have "gourmet" food sections and deli's in their stores that prepare "take-out" food under their own private label. All of these prepared foods have to be tuned to local tastes, because, in general, Chileans do not like spicy foods. There is significant potential for microwavable items as an increasing number of Chileans have microwaves in their homes.

B. Labeling and Marking Requirements

All imported foods must obtain a certificate of use and disposal from the Ministry of Health before customs will release them for sale. To obtain this certificate the importer must supply samples for microbiological, dietician, chemical and physical analyses. There is no blanket approval process for waiving this requirement for identical products that have been reviewed as part of another importer's application process, although an individual importer may request a blanket approval to bring in multiple shipments of the exact same product over the course of a year. Meeting the labeling and import certification requirements can be cumbersome and raises the overhead cost of introducing new products into the Chilean market.

Imported products intended for public consumption must specify the country of origin and be labeled in Spanish. All canned or packaged food products must display the quality, purity, ingredients or mixtures (including additives), net weight in the metric system, manufacturing and expiration dates, and the name of the producer or importer. Labeling and fortification standards often differ from those in the United States and some U.S. processed foods must be labeled and/or formulated especially for Chile. Goods not complying with the requirements may be imported but not sold until the conversion is made. A label that conforms with the Chilean requirements may be affixed to the product upon arrival in Chile.

For more information about general labeling provisions, please visit the following websites:

- Chilean Ministry of Health
  www.sesma.cl/sitio/pag/alimentos/indexjs3alimentosnorm001.asp

- U.S. Embassy, Santiago (Food & Agriculture section)
  www.usembassy.cl

Section IV. Best Product Prospects

The following products have been identified as showing good growth potential:

1. Snack foods, including high energy nutritional snacks for sports.
2. Frozen prepared dinner entrees and frozen bread products.
3. Dairy products, fresh and frozen, such as yogurt and specialty drinks
4. Processed meats, sardines, tuna
5. Dietetic snacks and candies
6. Baked goods and mixes
7. Sweets, gum, chocolates
8. Specialty pet foods (other than dry dog food).
9. Alcoholic beverages (rum & vodka in particular)

Opportunities for breaking into sectors traditionally dominated by the local market exist through associations with local suppliers. One such example is the licensing agreement between Yoplait and the local dairy goods producer, Quillayes, which established a niche presence for the locally manufactured Yoplait brand with an aggressive marketing campaign in the highly competitive yogurt category.

A strong economic outlook and a busier lifestyle for the typical Chilean will continue to drive the retail food market. Products that have demonstrated strength in recent years should persist, such as sweet and savory snacks, biscuits, breakfast cereal and snack bars. Sales of more mature products such as powdered milk, cooking fats, and vegetable and seed oils will likely stagnate or possibly decline.

A. Products with Good Sales Potential

Products Present in the Market					
Product Category	**Imports 2004 (U.S.$)**	**Estimated Import Growth for 2005**	**Import Tariff Rate**	**Key Constraints Over Market Development**	**Market Attractiveness for U.S.**
Grain Mill Products & Dry Goods	$346.8 million	18.8%	0% after full implementation of FTA*	Strong competition from Canada and Argentina	Very low local production; United States is an established supplier
Red Meat & Poultry	$271.3 million	20.5%		Brazil and Argentina grass-fed beef dominates the market, while the United States exports mainly grain-fed beef	Value-added U.S. pork products are very competitive; Chile imports 30% of its meat

Beverages & Spirits	$66.4 million	4.3%		Require strong national distribution, which restricts U.S. companies to working with a small number of partners	Chilean companies with national distribution have an established track record for adhering to licensing agreements, etc.
Sauces & Condiments (including coffee & tea)	$60.2 million	38.6%		A broad range of brands already exists in the market, diluting the impact of new participants	Opportunities for offering a complete line exist in association with specific retailers
Dairy	$46.1 million	6.6%		Strong presence of local suppliers	Opportunities for introducing innovative products via licensing agreements
Fruits & Nuts	$45.3 million	9.4%		Strong local production	Demand for imports rises in Chile's off-season, which is opposite to that of the United States

New Products that Currently are not Present in Significant Quantities					
Product Category	**Imports 2004 $**	**Estimated Import Growth for 2005**	**Import Tariff Rate**	**Key Constraints Over Market Development**	**Market Attractiveness for U.S.**
Health Food Products	unavailable	unavailable	0% after full implementation of FTA*	Significant investment in marketing/promotion compared to size of market	Good opportunities in small but growing health food segment; U.S. products have potential because of perceived innovation
Prepared Foods	$42.5 million	17.9%			Opportunities to introduce new innovations in this category

Breakfast Cereal	$10.1 million	40%			Opportunities to expand category reach; however, breakfast is not a big meal in Chile
Ethnic Foods	unavailable	unavailable		Small market size.	Growing interest in alternative foods because the product offering traditionally has been restricted

*The 2004 FTA states that the majority of products will have no tariffs within four years, while the rest will be fully phased out within 12 years.

B. Products Facing Significant Barriers

Although Chile has a general policy of free-market prices, there are some exceptions. Major agricultural products such as wheat, wheat flour, sugar, and sugar containing products fall under a price band system which encourages local production. These price bands change with fluctuations in international market prices and are typically announced mid-year to help the local agricultural industry determine what to sow.

Processed poultry and pet foods must be inspected by the Chilean Ministry of Agriculture, and imports of fresh/chilled poultry are prohibited.

Section V. Post Contact and Further Information

American Embassy Santiago, Office of Agricultural Affairs
Mailing Address: Office of Agricultural Affairs, Unit 4118, APO AA 34033-4118.
Tel.: (56-2) 330-3704
Fax: (56-2) 330-3203
E-mail: agsantiago@usda.gov
For further information, check the "Agricultural Affairs" home page on the U.S. Embassy Santiago web site (www.usembassy.cl).

Chile's Food Sanitation Regulations
Decree #977 of August 6, 1996: Covers labeling, packaging, additives, contaminants, microbiological criteria, irradiated, dietetic, infant, and frozen foods and specific product requirements, including those pertaining to non-alcoholic beverages. (Spanish http://www.sesma.cl/sitio/pag/alimentos/indexjs3alimentosnorm001.asp and unofficial English versions of Decree # 977 are on the U.S. Embassy website www.usembassy.cl).

Chilean Supermarket Association (ASACH)
Address: Av. Vitacura 2771, Las Condes, Santiago
Tel.: (56-2) 236-5150
Web Page: www.asach.com
E-Mail: asach@entelchile.net

Foreign Agricultural Service
Web Page: http://www.fas.usda.gov